



Mortgage Program  
Procedural Manual

December 4, 2008

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# Introduction

## Mission Statement

Minnesota Housing is committed to meeting Minnesotan's needs for decent, safe, affordable homes and stronger communities.

## Background

The Minnesota Housing Finance Agency ("Minnesota Housing" or "MHFA") was created in 1971 by the Minnesota Legislature.

Minnesota Housing offers programs funded with mortgage revenue bonds (MRB) to finance the purchase of new and existing homes by low and moderate income Borrowers. Minnesota Housing purchases closed loans originated by private lenders under prescribed program requirements.

Minnesota Housing also provides financial assistance to potential Borrowers who need entry cost and monthly mortgage payment assistance to make homeownership possible.

## Procedural Manual

This Procedural Manual sets forth for lenders the terms and conditions under which Minnesota Housing will purchase mortgages under its MRB and Homeownership Assistance Fund (HAF) programs.

## Mortgage Revenue Bond Programs

### Minnesota Mortgage Program (MMP)

Low interest First-Time Homebuyer loans offered throughout Minnesota to low and moderate income Borrowers through local participating lenders.

### Community Activity Set Aside Program (CASA)

Low interest First-Time Homebuyer loans available throughout Minnesota under special targeted initiatives with specific participating lenders. A 40-year first mortgage term is available.

- *Housing Choice Voucher Homeownership Initiative:*
  - Allows First-Time Homebuyer HUD Section 8 recipients to use their voucher subsidy to meet monthly homeownership expenses with a CASA first mortgage. Borrowers are eligible to receive HAF Entry Cost Assistance.

- *Homeownership Assistance Fund:*
  - Special assistance funds are available only with a Minnesota Housing first mortgage with a 30 or 40-year (CASA only) term. Loans are deferred and interest free.
  - HAF Entry Cost Assistance provides funds to assist Borrowers with down payment and/or closing costs; available with all Minnesota Housing first mortgage loans.
  - Monthly Payment Assistance provides funds to pay a portion of a Borrower's monthly mortgage during the first three years of the loan; available only with a CASA first mortgage loan.

# Chapter 1 – Partner Responsibilities and Warranties

## 1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement for Minnesota Housing mortgage programs executed between Seller and Minnesota Housing. It is incorporated into such Participation Agreement by reference and is a part thereof as fully as if set forth in such Participation Agreement at length.

Minnesota Housing reserves the right to:

- Change the program interest rate at any time under its sole discretion;
- Alter or waive any of the requirements herein;
- Impose other and additional requirements; and,
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

Minnesota Housing is under no obligation to purchase any mortgage loan or retain ownership of a mortgage loan that does not comply fully with this Procedural Manual. Minnesota Housing grants waivers, alterations or revisions at its sole discretion.

## 1.02 Evidence of Misconduct Referred to Attorney General

- Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of these programs to the Minnesota Attorney General's office for appropriate legal action.
- If, after a loan is made, a Seller discovers any material misstatements or misuse of the proceeds of the loan by the Borrower or others, the Seller shall promptly report such discovery to Minnesota Housing.
- Minnesota Housing may exercise all remedies available to it, both legal and equitable, to recover funds from the Seller and/or the Borrower. This includes loan funds, together with all applicable administrative costs and other fees or commissions received by the Seller in connection with the loan and for all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the loan or recovery thereof.

### **1.03 Disclosure and Use of Social Security Number/Minnesota Tax Identification Number**

The Minnesota Revenue Recapture Act of 1980 (Minnesota Statutes Sections 270A.01 to 270A.12) allows the disclosure of the Borrower's Social Security Number or Minnesota Tax Identification Number to the Minnesota Department of Revenue. This could result in the application of state tax refunds to the payment of any delinquent indebtedness of the Borrower to Minnesota Housing.

### **1.04 Unauthorized Compensation**

Seller may receive fees approved in this Procedural Manual. However, Seller shall not receive or demand from realtor/builder/Property Seller/Borrower:

- Kickbacks;
- Commissions; or
- Other compensation.

### **1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements**

The Seller is required to keep on file a complete copy of documents for each loan originated for purchase by Minnesota Housing. A loan file may be requested to be made available to Minnesota Housing at the Seller's Minnesota office during regular business hours or a copy forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, the following:

- A minimum of 10% of all loans purchased;
- All loans which go into early payment default (90 days or more past due) in the first 12 months; and
- Loans done by Sellers with higher-than-average delinquency rates.

Audited loans are reviewed for:

- Mortgage revenue bond law compliance;
- Minnesota Housing program/policy compliance;
- Compliance with credit/property underwriting requirements of the underlying loan product;
- Compliance with insurer/guarantor requirements;
- Fraud or misrepresentation on the part of any party involved in the transaction; and
- Trends and/or other indicators that may have an impact on the financial viability of the loan portfolio in part or in whole.



## **1.06 Termination of Seller Participation**

Minnesota Housing may terminate the participation of any Seller under the Minnesota Housing Mortgage Program at any time and may preclude Seller's future eligibility for reasons including, but not limited to, nonconformance with:

- This Procedural Manual;
- The Participation Agreement;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Any federal or state laws or acts that protect the Borrower's rights with regard to obtaining financing for homeownership; and
- Other applicable state and federal laws, rules and regulations.

Upon termination of a Seller's contract Minnesota Housing will:

- Continue to purchase eligible loans for which a commitment has been issued, until the commitment expiration date; and
- Not refund Participation fees to the Seller.

Minnesota Housing may, at its option, impose remedies other than termination of the contract for Seller nonperformance.

Seller may request reinstatement into Minnesota Housing programs. The decision whether or not to reinstate a Seller shall be at Minnesota Housing's sole discretion.

## **1.07 Representations and Warranties**

The Seller agrees to comply with all applicable federal, State, and local laws, ordinances, regulations and orders, including but not limited to the following:

- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- Equal Credit Opportunity Act;
- Fair Credit Reporting Act and any applicable regulations and orders thereunder;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Law (Title VIII);
- Minnesota Human Rights Act – Minnesota Statutes Chapter 363A;
- Data Privacy - Minnesota Statutes Chapter 13 and 462A.065;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement and Procedures Act of 1974.

In addition to the above warranties and representations, Seller must:

- Be the sole owner and holder of the loan with the right to assign it to Minnesota Housing;
- Assign the loan free and clear of all encumbrances;
- Warrant that:
  - The property is undamaged by fire, windstorm or other hazard;
  - The first mortgage loan is current on monthly installments of principal, interest, taxes, assessments and hazard insurance premiums at the time of purchase by Minnesota Housing;
  - Seller has not advanced funds, or solicited or induced funds to be advanced by another, directly or indirectly for the payment of any amount required by the loan, except to the extent specifically provided by Minnesota Housing lending programs;
  - A title insurance policy satisfactory to Minnesota Housing insures the mortgagee's interest;
  - All settlement and closing costs paid or borne by either party to the transaction have been disclosed, itemized and clearly explained on a closing or settlement statement, a copy of which was furnished to the Borrower and the Property Seller prior to closing;
  - All underwriting requirements of the underlying loan product have been satisfied;
  - All insurer/guarantor loan requirements have been met; and
  - Seller has been issued either a formal project approval or the Seller's underwriter has issued a signed letter indicating "spot" approval of basic compliance under Fannie Mae, Freddie Mac, FHA or VA guidelines, or on conventional loans, the unit/project is eligible for required private mortgage insurance.
- Seller has examined:
  - The Borrower's federal income tax returns or other appropriate documentation and warrants that the Borrower has not had an ownership interest in a Principal Residence during the three years previous to the date of the mortgage;
  - The Property Seller Affidavit and has determined the facts stated therein are true and correct; and
  - The Borrower Affidavit and has determined the facts stated therein are true and correct.
- Seller has no knowledge of any circumstances or conditions with respect to the mortgage or mortgaged property or Borrower's credit standing that can:
  - Be expected to cause prudent investors in the secondary market to regard the mortgage as an unacceptable investment;

- Cause the mortgage to become delinquent or to adversely affect the value or marketability of the mortgage.
- The person who signs the Seller Representations and Warranties on behalf of the Seller is fully conversant with Minnesota Housing program requirements, the underlying loan product and insurer/guarantor requirements and has the authority to legally bind the Seller; and Seller has complied with all terms, conditions and requirements of the Participation Agreement and this Procedural Manual unless those terms, conditions and requirements have been specifically waived by Minnesota Housing in writing.

## **1.08 Seller Compensation**

Seller is compensated for each loan purchased by Minnesota Housing as follows:

- Origination fee of up to 1% of the purchase price collected from the Borrower;
- Purchase fee of 1% of the purchase price paid by Minnesota Housing; and
- HAF loan fee of \$150 paid by Minnesota Housing, if applicable.

## **1.09 Annual Renewal Requirements and Fees**

- Annual renewal fee of \$2,500 for any Seller headquartered in the following HUD-identified metropolitan statistical areas (MSA):
  - Duluth-Superior, MN-WI;
  - Fargo-Moorhead, ND-MN;
  - Grand Forks, ND-MN;
  - LaCrosse, WI-MN;
  - Minneapolis – St. Paul, MN-WI;
  - Rochester, MN; and
  - St. Cloud, MN
- Annual renewal fee of \$1,000 for any Seller headquartered in any other part of the state.
- Minnesota Housing may adjust the annual renewal fees at any time at its discretion.
- Seller must meet the minimum loan volume requirements as specified by Minnesota Housing.

## Chapter 2 - Borrower Eligibility

### 2.01 Borrower

One individual or multiple individuals are eligible to be a Borrower(s) only if such individual or individuals meet the requirements of this Procedural Manual.

### 2.02 Borrower Age

Borrower must be eighteen (18) years of age or older or have been declared emancipated by a court having jurisdiction.

### 2.03 Co-Signers

Nonoccupant co-signers are not allowed on first mortgage loans. All Borrowers must occupy the property as their primary residence.

### 2.04 Unauthorized Compensation

Borrower shall not receive kickbacks, rebates, discounts, and/or compensation from any subcontractor, realtor or Property Seller.

### 2.05 Prior Homeownership - Three-Year Requirement

A Borrower may not have had an ownership interest in a Principal Residence at any time during the three year period ending on the date of execution of the mortgage. This requirement applies to any person who will execute the note, and will have a present ownership interest in the property being financed.

- Present ownership interest includes:
  - A fee simple interest;
  - An individual tenancy, joint tenancy, a tenancy in common, or a tenancy by the entirety;
  - The interest of a tenant shareholder in a cooperative;
  - A life estate;
  - A leasehold estate or a leasehold estate subject to a Community Land Trust;
  - A land contract, under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time;

- An interest held in trust for the Borrower (whether or not created by the Borrower) that would constitute a present ownership interest if held directly by the Borrower;
- Vendee interest in a contract for deed; or
- An ownership interest in a mobile home that is taxed as real estate.
- Interests that do not constitute a present ownership interest include:
  - Remaindermen interest;
  - An ordinary lease with or without an option to purchase;
  - A mere expectancy to inherit an interest in a Principal Residence;
  - The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate;
  - An interest in other than a Principal Residence during the previous three years (e.g. recreational/seasonal home); or
  - An ownership interest in a mobile home which is not permanently attached to the land and is taxed as Personal Property
  - Pre-existing interest in the subject property.
- Required Documentation - Tax Returns:
  - To verify that the Borrower meets the three-year requirement, the Seller must obtain copies of signed federal income tax returns filed by the Borrower for the three years immediately preceding execution of the mortgage documents (loan closing). The Seller should examine the tax returns and the credit report for any evidence that the Borrower may have claimed deductions for property taxes or mortgage interest deductions on a primary residence. The Borrower may also provide the Seller with an affidavit that he/she was not required to file an Income Tax Return during one or all of the preceding 3 years. See Chapter 7 – Documentation Requirements for acceptable alternative formats of federal income tax returns.
- Special Documentation for Current Ownership:
  - A Borrower with a current ownership interest in a residence within the most recent three year period must be able to provide evidence (e.g. copy of rental agreement/lease) showing that they have not lived in the dwelling for the most recent three year period.

## **2.06 Principal Residence/Occupancy Requirement**

Borrower must intend to occupy the financed dwelling as a Principal Residence within 60 days after the closing of the loan. A certification of the owner occupancy is to be made by the Borrower on the Borrower Affidavit.

## 2.07 Homebuyer Education

Qualified Homebuyer Education is required for borrowers securing Minnesota Housing financing under the following:<sup>1</sup>

- CASA
- Fannie Mae My Community Mortgage™
- Freddie Mac Home Possible®

The above noted requirement will be satisfied when at least one borrower per household provides a certificate of completion.

## 2.08 Minnesota Housing Program Eligibility Income

Gross annual household income is the gross annual projected household income as of the date of the mortgage application of all persons residing or intending to reside in a property from whatever source derived (with the exception of incidental income from after school employment of persons under 18 years of age) and before taxes or withholdings.

The Minnesota Housing maximum gross household income cannot exceed the amounts listed on Minnesota Housing's Website.

Gross annual projected household income includes:

- Salary, commissions, bonuses, tips, earnings from part-time employment;
- Interest, dividends, gains on sale of securities;
- Annuities, pensions, royalties;
- Veterans Administration compensation, public assistance, social security benefits, unemployment compensation and sick pay;
- Net rental income (including contract-for-deed income), income received from business activities or investments;
- Alimony, child support; and
- Estate or trust income.

Non-borrowing Occupant:

- The income of all occupants must be verified and considered for the purposes of determining whether the Minnesota Housing maximum income limits have been exceeded even if a non-borrowing occupant's income is not considered for credit underwriting purposes.

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<sup>1</sup> Available courses are listed on the Homeownership Center website at: <http://www.hocmn.org>

## **2.09 Loans to Employees and Affiliated Parties**

Seller may make Minnesota Housing loans to their directors, officers, employees and/or their families as well as to builders, realtors and/or their families, and any other principal with whom the Seller does business. Minnesota Housing employees and/or their families are also eligible. The Borrower must meet all eligibility criteria for the program.

## Chapter 3 - Property Eligibility

### 3.01 Eligible Properties

In order to qualify as an eligible property for a Minnesota Housing loan, the residence must:

- Be located in the State of Minnesota;
- Be a single-family residence, which includes:
  - An eligible Planned Unit Development (PUD);
  - An eligible unit of a condominium;
  - A duplex<sup>2</sup>; or
  - A manufactured home permanently affixed to a foundation and taxed as real property.

### 3.02 Manufactured Homes

Minnesota Housing distinguishes between two types of manufactured homes:

- Modular Homes – Homes built to state building codes and delivered to the site in modular sections. Modular homes are acceptable for all financing types, subject to the approval of the mortgage insurer/guarantor.
- Mobile Homes – Homes built to Federal Manufactured Home Construction Safety Standards, administered by HUD. The homes are built on wheeled chassis, which remain a basic structural element.
- Mobile homes are acceptable if they meet the following requirements:
  - Units were manufactured in 1976 or later;
  - Units must be multi-sectioned (double-wide);
  - Foundation: Permanently attached and anchored per manufacturer specifications to a basement, slab, or footings to frost line;
  - Wheels, axles and trailer hitches must be removed;
  - Units must be assessed/taxed as real estate; and
  - Units meet the requirements of the underlying loan product and the applicable insurer/guarantor.

<sup>2</sup> The Borrower must occupy one unit of a duplex property AND the duplex property must have been a residence for at least five years prior to the date of the new mortgage (i.e. not New Construction or recently converted from non-residential use)



### **3.03 Condominium and Planned Unit Development Requirements**

Individual existing or new units are acceptable under the following conditions:

- Conventional Loans - meet the eligibility requirements of either Fannie Mae or Freddie Mac or the applicable private mortgage insurer.
- FHA, VA or Rural Development Loans – meet the eligibility requirements of the applicable guarantor.
- Seller does not request Minnesota Housing financing for more than 9 units or greater than 20% of the total project units without prior written approval from Minnesota Housing.

### **3.04 Ineligible Properties**

Properties not eligible for financing are as follows:

- A unit in a Cooperative Corporation or a limited equity Cooperative Corporation;
- Recreational/seasonal home;
- Single-wide mobile/manufactured home even if permanently affixed to a foundation and taxed as real property;
- A property located in a Special Flood Hazard Area in a community where the National Flood Insurance Program is unavailable;
- A property intended to be used as an investment property (except the rental of a second unit in a duplex);
- A newly constructed duplex or a duplex converted from nonresidential use in the past five years; or
- A property where 15% or more of the total area, of the property is used primarily in a trade or business in a manner which would permit the Borrower to take a deduction for any portion of the costs of the property for expenses incurred in connection with such trade or business use of the property on the Borrower's federal income tax return. For home day care, less than 15% of the property is used regularly and exclusively for the business.

### **3.05 Acquisition Cost Limit**

Acquisition Cost is the cost of acquiring an eligible property from the Property Seller as a completed residential unit. The Acquisition Cost of a property may not exceed the amounts listed on Minnesota Housing's Website.

Acquisition Cost includes:

- All amounts paid either in cash or in kind, by the Borrower (or by a related party for the benefit of the Borrower) to the Property Seller (or to a related party for the benefit of the Property Seller) as consideration for the property;
- All amounts paid by or on behalf of the Borrower and required to complete or repair a residence whether or not the cost of such completion or repairs is to be financed with the proceeds of a Minnesota Housing loan (which may be agreed upon beyond the contractually provided purchase price);
- All land cost or land value as stated in New Construction Requirements Section 3.14; and
- All special assessments paid or assumed by the Borrower.

Acquisition Cost does not include:

- Closing or financing costs, or
- Any special assessments paid by the Property Seller.

### **3.06 Appraisal**

The Seller must warrant that the property appraisal meets the following criteria:

- The appraised value of the property does not exceed 125% of the applicable Acquisition Cost Limit;
- The appraiser is licensed in the State of Minnesota;
- The appraisal meets the insurance requirements of the insurer/guarantor;
- The appraiser does not have any personal or financial interest in the property transaction; and
- Current industry standard forms are used.

### **3.07 Personal Property**

Personal Property may not be financed or listed as part of the total Minnesota Housing purchase transaction between the Borrower and Property Seller. Only permanently affixed property (fixtures) are eligible for financing.

### **3.08 Excess Property**

The financing of a property may include only land necessary to maintain the "basic livability" of the dwelling.

- The land being financed may not provide other than incidental income to the borrower;
- The appraiser must state that the subject lot is not greater in size than other residential parcels in the community;

- The land may not comprise more than one parcel or be eligible for legal subdivision unless the appraiser states that the land is commensurate in size with other residential parcels in the community, and the borrower must certify that he or she has no intention of selling or leasing any portion of the land being financed.

### **3.09 Repair Escrows**

Repair escrows are allowed only with the following conditions:

- Repairs are cited on the Appraisal Inspection Report and only include such items as substantially protect or improve the basic livability or energy efficiency of the property;
- Completion after closing is absolutely necessary (i.e. inclement weather or materials shortage);
- Maximum of \$15,000 (one and one-half times estimated cost of completion);
- A signed escrow agreement exists between Borrower and Property Seller; or
- Requirements of insuring entity/guarantor are met.

### **3.10 Private Septic System Requirements**

Private septic systems must meet the requirements of the insurer/guarantor.

On conventional and Rural Development loans, Seller must have at least one of the following:

- A current certificate of compliance that documents the system meets current municipal or county code/standards;
- A signed letter from a certified inspector dated within the previous 12 months that indicates the system meets current municipal or county code/standards; or
- A signed letter from the municipality or county if there are no municipal or county code/standards that apply to the property.

Newly Constructed Residences with private septic systems located within Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright Counties are not eligible for financing.

### **3.11 Private Well Requirements**

Private deep wells are acceptable under the following conditions:

- Meets current municipal or county standards;
- Water sample is certified as safe by an approved lab or health authority; and
- Meets the requirements of the insuring entity/guarantor.

Sandpoint or shallow wells are acceptable only under the following conditions:

- Meets current municipal or county standards;
- This type of well is very common in the area;
- Water sample is certified as safe by an approved lab or health authority;
- Does not adversely affect the value and marketability of the property; and
- Meets the requirements of the insuring entity/guarantor.

### **3.12 Shared Wells and Septic Systems**

Shared wells and septic systems, if not operated by a public authority, are acceptable only under the following conditions:

- Meets current municipal or county standards;
- Water sample is certified as safe by an approved lab or health authority;
- Septic system has a current certificate of compliance;
- Have recorded maintenance and easement agreements that cover the term of the loan; and
- Meets the requirements of the insuring entity/guarantor.

### **3.13 Community Land Trusts**

If a property is located in a Community Land Trust (CLT), the CLT must meet the following requirements:

- Borrower receives a full disclosure of their rights and obligations under the trust, including future limitations on sale;
- Borrower has access to secondary mortgage market products; and
- The terms and conditions of the CLT are compatible with the National CLT Network model and otherwise satisfactory to Minnesota Housing.

### **3.14 New Construction Requirements**

In addition to the property eligibility requirements already stated in this Procedural Manual, a New Construction property must meet the following requirements:

- A property located within Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright counties must be serviced by a regional waste water treatment center or by a treatment system owned and operated by a local unit of government;
- The land must be zoned for residential housing;
- The land must not have been annexed within the previous calendar year;
- The actual cost of land purchased within the 24 months prior to the date on which construction begins must be included in the Acquisition Cost;

- The value of land, as determined by the appraiser, must be used to determine Acquisition Cost if the land was purchased more than 24 months prior to the date on which construction begins or through a nonarms length transaction;
- Any temporary financing (i.e. construction loan, bridge loan, contract for deed) provided prior to the date of the loan closing may not exceed 24 months in term;
- A Borrower may not act as their own general contractor;
- Land equity (the dollar value of the difference between land value/cost and the total amount the Borrower owes against the land) may be used by a Borrower only as a down payment;
- A Certificate of Occupancy must be issued prior to the loan closing;
- Minnesota Housing Builder's Warranty must be executed and delivered to Borrower at loan closing; and
- The property must meet the requirements of the applicable insuring entity/guarantor.

## Chapter 4 – Loan Eligibility

### 4.01 Eligible Loans

Minnesota Housing purchases closed loans from Sellers under contract in Minnesota Housing mortgage loan programs. The Seller must warrant that the following criteria have been met for each loan submitted for purchase.

- All loans have been originated, processed, credit underwritten and closed in accordance with the requirements of the underlying loan product and insurer/guarantor.
- Fannie Mae Expanded Approval Level 1 loans sold to Minnesota Housing may be originated only under the CASA program.
- Freddie Mac Caution A Minus Eligible Level 1 and 2 Loans may be originated only under the CASA program.
- FHA 203K Streamlined loans may be originated only under the CASA Program.
- All local, state and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending and wrongful discrimination in residential housing have been met;
- Minnesota Housing First-Time Homebuyer, program income and property acquisition requirements have been met; and
- The loan must be originated and closed in, or assigned to, the name of the Seller that is a party to the Participation Agreement and that has gained an Individual Commitment of funds from Minnesota Housing via the HDS SF Web Application.

Any and all Seller negotiated mortgage insurance programs must receive prior written approval from Minnesota Housing and meet Minnesota Housing exposure requirements (see Section 4.7).

### 4.02 New Construction Requirements

In addition to the loan eligibility requirements already stated in this Procedural Manual, a New Construction property must meet the following requirements:

- Minnesota Housing funds are not used for temporary initial financing (e.g. interim or construction financing);
- Minnesota Housing loan funds do not constitute a “buyer mortgage” in which a mortgage deed and note are signed prior to construction, the proceeds of which are used to acquire the site and/or construction of the dwelling unit, with amortization to begin after the anticipated construction completion date;
- All sweat equity meets the requirements of the applicable loan product and insurer/guarantor, as well as the following:

- Work was performed by the Borrower or members of a Borrower's family, specifically, the Borrower's brothers and sisters (whether by whole or half blood), spouse, or lineal descendants;
- Individuals that perform the work must be qualified to do the specific type of work;
- The maximum dollar amount of the sweat equity does not exceed \$5,000; and
- Sweat equity only includes the value of work and not the cost of materials.

#### **4.03 Ineligible Loans**

Any loans originated/underwritten as follows are ineligible for purchase:

- Expanded Approval Levels 2 and 3 under Fannie Mae's Desktop Underwriter;
- Caution A-Minus Eligible Levels 3, 4 and 5 under Freddie Mac's Loan Prospector; and,
- Loans that do not meet Minnesota Housing exposure requirements. (See Section 4.7)

#### **4.04 Subsidy Recapture Disclosure**

Federal law requires that all loans funded by mortgage revenue bonds be subject to subsidy recapture regulations. Subsidy recapture enables the federal government to collect some of the subsidy realized by Borrowers from the interest rate differential resulting from the mortgage revenue bond financing.

Such subsidy is collected through the payment of income taxes to the Internal Revenue Service upon sale or disposition of the Borrower's home. Recapture only applies, in varying degrees, within the first nine (9) years of the loan and is only required from Borrowers whose household income increases significantly during the recapture period and who make a gain on the sale of their home.

To ensure understanding and disclosure of subsidy recapture, Sellers must:

- Explain subsidy recapture to the Borrower at the time of loan application; and
- Require the Borrower to sign the Subsidy Recapture Disclosure Statement at closing.

#### 4.05 Interest Rate/Amortization Requirements

Minnesota Housing requires the loan:

- Have a fixed rate; and
- The loan amount is fully amortized over the term of the loan by level installments of principal and interest payable on the 1st of each month.

#### 4.06 Mortgage Term

Loans must have a term in 5-year increments with a minimum term of 15 years and a maximum term of 30 years.

#### 4.07 Loan Mortgage Insurance Coverage

- Loans with a loan-to-value ratio in excess of 80% must be insured/guaranteed by a mortgage insurer that is acceptable to Minnesota Housing, including:
  - Federal Housing Administration (FHA)
  - Veteran's Administration (VA)
  - Rural Development (RD)
  - Conventional loan with private mortgage insurance (PMI)
- General conventional insurance exposure requirements are as follows:
  - If the loan-to-value ratio is **greater than 80% and less than or equal to 90%**, mortgage insurance coverage must be sufficient to ensure Minnesota Housing's exposure does not exceed **75%**; or
  - If the loan-to-value ratio **exceeds 90%**, mortgage insurance coverage must be sufficient to ensure that Minnesota Housing's exposure does not exceed **70%**.

#### 4.08 Private Mortgage Insurance Companies – Minimum Requirements

All private mortgage insurance companies must:

- Be licensed to do business in the State of Minnesota; and
- Maintain a rating of A2 from Moody's Investor Services and AA from Standard and Poors Corporation at the time the mortgage loan is purchased by Minnesota Housing, or possess Fannie Mae and Freddie Mac approval.



#### **4.09 Escrow (or Deposit) Requirements**

- Escrows are required and must include monthly recurring claims of taxes, assessments, homeowners insurance, and, if applicable, flood insurance and/or mortgage insurance; and
- Escrows must be collected by the Seller at closing and for all full monthly payments until such time as Minnesota Housing purchases the loan and the file is forwarded to the designated Servicer.

#### **4.10 Late Charge**

A provision for an enforceable late charge must meet the requirements of the applicable loan product and the insurer/guarantor.

#### **4.11 Title Insurance Requirements and Title Waivers**

All loans submitted to Minnesota Housing for purchase must meet the title insurance and waiver requirements of the underlying loan product and the applicable insurer/guarantor for the State of Minnesota. In addition to these requirements, the following conditions must be met:

- The title insurance policy must not be subject to any exceptions other than those previously approved by FHA, VA, RD or the private mortgage insurance company insuring the loan, if applicable, and approved by Minnesota Housing. Minnesota Housing reserves the right to request deletion of any listed exceptions;
- The “insured” must be Minnesota Housing, their successors or assigns, as their interest may appear; and
- The title must show fee simple or leasehold ownership and be duly recorded.
  - The first mortgage and attached Minnesota Housing mortgage amendment and assignment to Minnesota Housing must clearly indicate the document number and/or book and page numbers.

#### **4.12 Hazard and Flood Insurance Requirements**

All loans must be covered by hazard insurance, which meets at a minimum the requirements of Fannie Mae or Freddie Mac in addition to the following requirements:

- Insurance must be effective on the date of the mortgage;
- **Level of Coverage:**
  - Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement and should be of the type that provides for claims to be settled on a replacement cost basis;

- **Amount of Coverage:**
  - 100% of the insurable value of the improvements, or
  - The unpaid principal balance of the first mortgage, as long as the amount of coverage equals the minimum amount required to compensate for damage or loss on a replacement cost basis (80% of the insurance value of the improvements);
- **Maximum Deductible Amount:**
  - The higher of \$1,000 or 1% of the policy face amount; and
- **Mortgage Clause:**
  - All insurance policies must contain a 'standard' or 'union' mortgage clause in the form customarily used. The mortgage clause should read "Minnesota Housing Finance Agency, in care of (insert Servicer's name and address here)."

All loans secured by a property located in a Special Flood Hazard Area must have adequate flood insurance when the mortgage is originated and the coverage shall be maintained for as long as the mortgage is outstanding or until a remapping of a flood zone results in the property no longer being in a Special Flood Hazard Area. Minnesota Housing also requires flood insurance coverage for a mortgage if the remapping of a flood zone results in the security property being in a special Flood Hazard Area even though no flood insurance would have been required when the Mortgage originated. The flood insurance policy must meet at a minimum the requirements of Fannie Mae or Freddie Mac.

#### **4.13 Refinancing of an Existing Mortgage**

Minnesota Housing does not allow the refinancing of an existing loan unless the loan is used to replace or refinance temporary initial financing that has an original mortgage term of 24 months or less such as:

- Construction or interim loans; or
- Bridge loans or gap loans.

#### **4.14 Settlement/Closing Costs**

Settlement/closing costs, fees or charges the Seller collects from any party in connection with any loan must:

- Comply with Minnesota Law;
- Meet all requirements of the insurer/guarantor;
- Not exceed an amount deemed usual or reasonable for the type of transaction being closed (e.g. FHA, VA);
- Not exceed the actual amounts expended for any item (e.g. credit report, appraisal); and
- Ensure the Borrower does not pay more than a pro-rata share of property taxes.

## **4.15 Junior Liens/Community Seconds**

All junior liens/community seconds (including resale restrictions) used in conjunction with a Minnesota Housing loan must comply with the following:

- All requirements of the applicable loan product and insurer/guarantor;
- The second with the larger loan amount takes prior position (2nd position) if combined with HAF;
- Junior liens do not reduce Acquisition Cost;
- A Borrower may receive cash back at closing from junior lien proceeds only when the cash back represents a refund of the Borrower's own investment as allowed by the first mortgage product; and
- Minnesota Housing requires full disclosure of any and all junior liens.

## **4.16 Non-Minnesota Housing Down Payment Gift Programs**

Minnesota Housing allows down payment gift programs such as the AmeriDream Program and the Nehemiah Program in conjunction with a loan. These and other similar programs are offered by various 501(c)3 organizations, and require the Property Seller to make a contribution to the organization. After taking a fee (either a certain amount or percentage), the organization makes a gift to the Borrower, which covers required Borrower entry costs (down payment and closing costs).

Criteria for using these types of programs in conjunction with a loan are:

- Borrower may not use one of these down payment gift programs in addition to the Homeownership Assistance Fund, and
- The down payment gift program must be allowable with the loan insurer/guarantor.

## **4.17 Non-Complying Loans**

Minnesota Housing shall have the right to take one or more of the following actions in the event a Seller submits a mortgage loan that does not, as determined by Minnesota Housing, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the non-complying loan;
- If not already purchased, refuse to purchase the loan;
- If already purchased, require the Seller to repurchase the loan for the purchase price;
- Terminate, suspend, or otherwise limit the Seller's Participation Agreement with Minnesota Housing; or

- Preclude the Seller from future participation in Minnesota Housing programs.

#### **4.18 Repurchase of Loans**

Minnesota Housing may, at its option, tender any loan to the Seller for repurchase if:

- Any representation or warranty of the Seller or the Borrower with respect to the loan is determined by Minnesota Housing to be materially incorrect;
- The loan is not in compliance with any term or condition set forth in the Participation Agreement and this Procedural Manual; or
- Any insurance or guaranty with respect to the loan is revoked, terminated or withdrawn by the insurer/guarantor and is not reinstated or replaced within 60 days after receipt by the Seller of notice of revocation, termination, or withdrawal.

**Upon written notice of repurchase by Minnesota Housing, Seller has ten (10) business days to submit payment to Minnesota Housing for the unpaid principal balance, the balance of the associated HAF loan if any, accrued interest, accrued late charges, the lender premium and any other expenses incurred, including legal fees and costs. This requirement applies if the loan is current, delinquent, or in any stage of foreclosure or post foreclosure. Failure to comply with this requirement may result in the termination, suspension, or otherwise limit the Seller's Participation Agreement with Minnesota Housing.**

## Chapter 5 – Special Assistance Programs

### 5.01 Community Activity Set Aside Program

CASA loans must meet the loan requirements of the Minnesota Mortgage Program and the requirements of the CASA Initiative.

All CASA borrowers must provide proof of completion of Qualified Homebuyer Education.<sup>3</sup>

In addition to the loan terms available under MMP, CASA also allows:

- 40-year term loans;
- Expanded Approval® Loans (Levels I per Fannie Mae product guidelines);
- Freddie Mac Caution A Minus Levels 1 and 2 loans; and,
- FHA 203K Streamlined loans with a maximum repair limit of \$15,000.00.

Seller is responsible to determine that an individual Borrower meets the Initiative's requirements.

- Housing Choice Voucher (HCV) Homeownership Initiative
  - The HCV Homeownership Initiative allows HUD Section 8 recipients to use their voucher subsidy to meet monthly homeownership expenses. Minnesota Housing allows the combination of the HCV subsidy with loans sold to Minnesota Housing only under the CASA program.
  - Sellers originating loans with a HCV subsidy must service the loans prior to purchase by Minnesota Housing in compliance with this Procedural Manual. This involves collecting a portion of the monthly payment from the borrower and a portion of the monthly payment from the public housing authority.
  - Minnesota Housing designates one servicer for all HCV loans.
  - HCV recipients are eligible to receive HAF ECA.

### 5.02 Homeownership Assistance Fund

HAF is available only in conjunction with a first mortgage loan purchased by Minnesota Housing.

The HAF program provides two types of assistance up to a maximum assistance of \$4,800 combined into one interest free, deferred loan.

<sup>3</sup> This requirement will be satisfied when at least one borrower in the household submits a certificate of completion

Entry Cost Assistance (ECA) provides between \$1,000 and \$3,000 to pay for eligible entry cost expenses, including down payment, and other customary and normal buyer closing costs (excluding prepaids).

Monthly Payment Assistance (MPA) provides funds to pay a portion of the monthly first mortgage payment when the Borrower's housing ratio exceeds 30% of the gross qualifying income. MPA is set at \$75/month for the first year, \$50/month the second year and \$25/month the third year, for a total maximum assistance of \$1,800. **MPA is available only under the CASA program and may not be used for duplex properties.**

A Housing Choice Voucher Homeownership Initiative Borrower may use only the ECA component of HAF.

### 5.03 HAF Borrower Eligibility

The Borrower must meet at least one of the following criteria:

- Earn less than 60% of area median income tiered by household size (see HAF Income Limits on Minnesota Housing's website);
- Be purchasing a home in a low-income census II tract (go to FFIEC's website at <http://www.ffiec.gov/geocode/default.aspx>);
- Single Head of Household;
- Have a Disabled Household Resident
- Household of Color or Hispanic Ethnicity; or
- The first mortgage is sold to Minnesota Housing under the CASA program.

Cash Investment: A minimum cash investment of \$500, including prepaids, is required. The cash investment must come from the Borrower's assets and may not be a gift, grant, or sweat equity contribution.

Asset Limit: A Borrower's liquid assets after closing are limited to the lesser of six months principal, interest, taxes, and insurance or \$5,000.

### 5.04 HAF Loan Requirements

- A written pre-approval from Minnesota Housing is required to originate a HAF loan with an uninsured first mortgage except when a public entity or foundation provides affordability gap financing/grant funds as the 20% investment.
- A Borrower may receive cash back at closing only when the cash back represents a refund of the Borrower's investment (reflected on HUD-1 as paid outside of closing) and the first mortgage product and insurer/guarantor allows the replenishment/reimbursement refund.
- HAF loans may be combined only with Minnesota Housing First-Time Homebuyer loan products with a 30 or 40-year term.

- HAF is a deferred payment loan. The Borrower must repay the loan in full when:
  - The property is sold or transferred;
  - The first mortgage is refinanced;
  - The first mortgage is paid in full; or
  - At such time as the property is no longer owner-occupied by the Borrower.
- HAF is a junior lien.
- A HAF loan cannot be assumed or subordinated.

### **5.05 HAF Lender Warranties**

In addition to the warranties stated in Section 1.07 Seller warrants the following:

- Borrower's cash investment is paid from Borrower's out of pocket funds;
- Borrower liquid asset reserves after closing are the lesser of 6 months PITI or \$5,000; and
- HAF monies received by Borrower are being applied to the transaction and verified through the HUD-1 closing statement.

### **5.06 HAF Monthly Payment Assistance Impact on FHA Underwriting**

Minnesota Housing has HUD/FHA approval to use HAF monthly Payment Assistance with an FHA loan (see letters on Minnesota Housing's Website).

## Chapter 6 – Commitment/Disbursement

Minnesota Housing funds a variety of programs and initiatives and reserves the right to establish limits for any program and/or initiative during any business day as listed:

- A maximum dollar amount of money a Seller may commit; or
- A maximum number of Individual Commitments a Seller may commit.

Seller may commit funds on a first-come, first-served basis. Fund balances and current interest rates are available on the Minnesota Housing website or by logging into the HDS SF Web Application.

Individual Commitments are to be considered as “forward commitments” by Seller. It is expected that the loan will be submitted to gain a Purchase Approval status via the HDS SF Web Application.

### 6.01 Requesting a Commitment

Once the Seller has determined that a Borrower meets the loan requirements, an Individual Commitment of funds is requested through Minnesota Housing’s HDS SF Web Application.

Requests for a Commitment that meets the eligibility requirements in the Procedural Manual will be authorized electronically.

Commitments for existing properties are valid for 120 days. At day 61 and then again at day 91 an extension fee of ½ of 1% will be discounted at loan purchase. Seller may not charge the Borrower for the extension fees. All Commitments will be automatically cancelled at day 121.

Commitments for New Construction properties are valid for 160 days. At day 101 and then again at day 131 an extension fee of ½ of 1% will be discounted at loan purchase. Seller may not charge the Borrower for the extension fees. All Commitments will be automatically cancelled at day 161.

Loans must meet eligibility requirements and gain a status of Purchase Approval via the HDS SF Web Application within the timeframes specified above.



## **6.02 Modifying a Commitment**

- Any change to a Commitment must meet eligibility requirements and must be submitted via the HDS SF Web Application to qualify.
- Any qualifying Commitment change will not alter the commitment period of the original commitment.
- A change of Borrower or property on the Commitment will not be allowed.
- A change of the Loan Amount will be allowed if funds are available.

## **6.03 Canceling a Commitment**

Minnesota Housing requires Seller to cancel any Commitment that will not be used for the specified loan.

## **6.04 Transfer of Individual Commitments**

Seller may not transfer commitments to another Seller without prior written approval by Minnesota Housing. Minnesota Housing may transfer a Commitment under the following conditions:

- Seller requests in writing a transfer of the Commitment to different Seller and documents the reason; and
- Original Seller must transfer and/or assign case documents to the new Seller.

## **6.05 Duplicate Borrower Commitments**

Seller may not cancel an Individual Commitment and subsequently recommit funds for the same Borrower/property in order to obtain a more favorable Commitment term.

## **6.06 Minnesota Housing Loan Purchase/Disbursement of Funds**

Minnesota Housing will purchase loans with a status of Purchase Approval via the HDS SF Web Application by the daily cutoff time, Monday through Thursday, except for State observed holidays. The disbursement of funds will occur on the next business day.

Loans will be purchased based on stated terms for each individual loan. Amortization calculations are based on industry standards. Minnesota Housing's computations will be the basis for the mortgage purchase.

A Lender Certificate detailing purchase transaction details will be available only via the HDS SF Web Application.

## **6.07 Loan Purchase Corrections**

If it is determined that an adjustment to the purchase price of any purchased loan is necessary, Minnesota Housing will either invoice the Seller for any funds to be returned or disburse additional funds to the Seller.

## Chapter 7 – Documentation Requirements

### 7.01 Loan Processing and Closing

All loans submitted to Minnesota Housing for approval must meet the following requirements:

- Loans must be closed, and disbursed, prior to requesting Minnesota Housing loan approval via the HDS SF Web Application.
- Seller must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan.
- All loan documents must be industry standard and meet the requirements of Minnesota Housing, the underlying loan product and the insurer/guarantor, as applicable.
- All loan documents must be complete, accurate and reviewed by the Seller at the various and appropriate stages of the loan.
- For loans underwritten utilizing industry standard automated underwriting systems, Minnesota Housing requires full documentation when verifying income and assets to confirm Minnesota Housing eligibility.
- Minnesota Housing or industry-standard forms may not be altered in any way other than to add a company name and logo.
- The loan must be originated and closed in, or assigned to, the name of the Seller that is a party to the Participation Agreement and that has received an Individual Commitment of Funds from Minnesota Housing.
- All mortgage assignments must run directly from the Seller to Minnesota Housing.
- Seller must submit the mortgage, assignment(s) and HAF Second Mortgage, if applicable, to the appropriate county office for recording prior to requesting loan approval to Minnesota Housing.
- All assignments must use the Minnesota Uniform Conveyance Blank.
- One fully executed and originally signed copy of the Guaranteed Rural Housing Lender Record Change must be submitted to the designated Servicer for all RD loans. This document should not be recorded.

### 7.02 Minnesota Housing Documentation/Delivery Requirements

Minnesota Housing provides the Loan Transmittal 1<sup>st</sup> Mortgage form detailing specific documentation/delivery requirements. Seller must fully execute and deliver documents within designated timeframes. In addition, Sellers must specifically warrant the following:

Borrower Affidavit has been signed, and duly notarized, by each Borrower who signs the note and intends to reside in the property as their Principal Residence.

- Seller has obtained, and reviewed, applicable documentation to determine compliance with the certifications on the Borrower Affidavit as it pertains to the mortgage revenue bond First-Time Homebuyer requirements.
- Documentation includes, but is not limited to:
  - Federal income tax returns (IRS Form 1040 and all its versions) for the preceding 3-year period; or,
  - The computer generated form for electronically filed returns showing the line numbers and all corresponding entries; or
  - A letter from the IRS indicating the type of tax return filed and the significant line entries from the return; or,
  - For Borrowers using the IRS "TeleFile" phone system, a copy of the TeleFile worksheet, TEL-5.
- Seller has obtained a signed, written explanation from any Borrower if there is any indication that the Borrower has had an ownership interest in a primary residence within the past three years. Any such interest must be documented and verified to provide reasonable assurance that there was no actual ownership in a primary residence.
- Property Seller Affidavit has been signed, and duly notarized, by those persons conveying the residence and/or land to the Borrower.
  - Seller has reviewed any and all contracts in connection with the residence sale transaction to ensure total compliance with this section.
- Subsidy Recapture Disclosure Statement has been signed by each Borrower at closing.

Documentation not delivered to Minnesota Housing/Servicer within the specified time frames, may result, at Minnesota Housing's discretion, in the Seller being required to repurchase the loan, or any such remedy as identified in this Procedural Manual. Minnesota Housing may also, at its discretion, extend the aforementioned timeframes.

### **7.03 Records Retention**

Seller must retain any and all compliance documents (including compliance with Minnesota Housing program guidelines) as may be required by the Seller's regulatory authority, the requirements of the underlying loan product and the requirements of the insurer/guarantor, as appropriate.

Loan product and insurer/guarantor minimum and/or alternative documentation requirements does not relieve the Seller from the responsibility of acquiring and maintaining complete files, including any and all documents and materials as would customarily be required for servicing and/or loan audit.

## Chapter 8 – Servicing

### 8.01 Servicing

- Each Seller will be assigned a designated servicer.
- Minnesota Housing may, at its discretion, designate other servicers.

### 8.02 Seller Servicing Responsibilities

Seller must complete the following loan servicing activities during the period from loan closing to Minnesota Housing purchase and subsequent to transfer of servicing.

- Collect and apply all payments made. (Payments are not to be held and forwarded to the assigned Servicer after Minnesota Housing purchase.) All payments must be entered into the HDS SF Web Application.
- Payments must include:
  - Monthly loan principal and interest;
  - 1/12th of annual property tax;
  - Mortgage insurance, if applicable;
  - Flood insurance, if applicable;
  - Hazard insurance (escrows);
  - Assessments, if applicable;
  - HAF monthly payment assistance adjustment, if applicable;
    - Seller must accept short payment and amortize the first mortgage normally;
    - Adjustments for collected/credit HAF payments will be made by Minnesota Housing at time of purchase;
- Maintain payment history indicating:
  - Breakdown of principal, interest and escrows;
  - Any principal prepayments;
  - Remaining principal balance of loan;
- Collect any past due payments. Minnesota Housing will not purchase delinquent loans.

### 8.03 Delivery of Loan to Servicer

Seller must forward Minnesota Housing Loan Transmittal 1<sup>st</sup> Mortgage along with loan documentation in the prescribed order and format, to the assigned Servicer by certified mail within **five (5)** calendar days of the Minnesota Housing purchase of the loan.

## **8.04 15 Day Servicing Transfer Notification**

The Real Estate Settlement Procedures Act (RESPA) requires a 15-day notification to the Borrower if a mortgage loan and/or its servicing is to be transferred to another entity. The notification must be received at least 15 days before the Borrower's next payment is due. To allow Seller to comply with these requirements, any loan that is purchased by Minnesota Housing with a disbursement date after the 10th of the month will be treated as if the following month's payment has already been collected. Thus, the Seller should collect and retain that payment. This will allow the Seller adequate time to notify the Borrower of the servicing transfer without violating RESPA guidelines.

## **8.05 Private Mortgage Insurance Cancellation**

Minnesota Housing and its servicers must comply with all requirements of the Homeowners Protection Act of 1998.

Cancellation Based on Original Value:

- Automatic Cancellation
  - Private mortgage insurance is to be cancelled on the date that the principal balance of the mortgage is first scheduled to reach a level that is 78% of the original value of the property provided the mortgage is current or as soon as payments become current thereafter.
- Borrower Requested Cancellation
  - The Borrower must have a two-year good payment history; and
  - Based on actual payments, the mortgage reaches 80% of the original value of the property; and
  - A Broker's Professional Opinion of Value or Appraisal, ordered and received by the Servicer at the Borrower's expense, supports the fact that the property value has not declined below the original value.
- Cancellation Based on Current Value:
  - Loans must be at least 2 years old. (Minnesota Housing, at its sole discretion, may make an exception if the increase in market value is due to substantial improvements to the property.)
- Loans 2-5 years old
  - The Borrower must have a two-year good payment history; and
  - The Loan-to-Value is at or below 75%; and

- The Loan-to-Value is supported by a Broker's Professional Opinion of Value or Appraisal, ordered and received by the Servicer at the Borrower's expense.
- Loans 5 years and older
  - The Borrower must have a two-year good payment history; and
  - The Loan-to-Value is at or below 80%; and
  - The Loan-to-Value is supported by a Broker's Professional Opinion of Value or Appraisal, ordered and received by the Servicer at the Borrower's expense.

## **8.06 Assumption/Due-On-Sale**

An Minnesota Housing loan may be assumed only by persons who:

- At the time of the assumption, intend to occupy the property as their Principal Residence within 60 days of closing;
- Have not had an ownership interest in a Principal Residence (other than the property being purchased with the proceeds of the loan) during the three year period ending on the day the Borrower executed the loan application;
- Do not have gross household income that exceeds the current Minnesota Housing limits (see Federal Purchase Price Limits – Assumption on Minnesota Housing's Website); and
- Are not purchasing or acquiring the residence at an Acquisition Cost that exceeds the current Minnesota Housing limits (see Federal Purchase Price Limits – Assumption on Minnesota Housing's Website).

Unless the loan is assumed in accordance with the above provisions, the loan is due upon sale or transfer of title.

## **8.07 Hardship Policy – Homeownership Assistance Fund Loan**

Minnesota Housing has in place a hardship policy for its HAF loans that allows forgiveness in either part or whole if the Borrower is experiencing severe financial hardships that prevent him or her from paying back full indebtedness.



# Appendix

Definitions  
Forms List  
Process Guide

## Definitions

All terms used in the Procedural Manual use mortgage industry standard definitions except for the following:

Term	Definition
Acquisition Cost	The cost of acquiring a completed residential unit (See section 3.5).
Disabled Household Resident	A Borrower, or household member, who has a permanent physical or mental condition, which substantially reduces the person's ability to function in a residential setting. If the disability does not require the use of a mobility device, the Borrower must provide a written licensed physician certification and description pertaining to the nature of the disability, or a Supplemental Security Income (SSI) award letter or Social Security Disability Insurance (SSDI) award letter.
First-Time Homebuyer	A Borrower who meets the requirements as stated in Section 2.5 of this Procedural Manual.
Household of Color or Hispanic Ethnicity	A household with at least one Borrower self-identified as belonging to at least one of the following Office of Management and Budget ethnic/racial categories: American Indian or Alaska Native, Asian, Black or African American, Hispanic or Latino Ethnicity; or Native Hawaiian or Pacific Islander.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.
Low-Income Census Tract	A census tract with a median family income of less than 50% of the broader area median family income.

Minnesota Housing Program Eligibility Income	Income used to meet the requirements of this program procedural manual.
New Construction/Newly Constructed Residence	New construction or a newly constructed residence refers to a residence, which either has not been previously occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or gap loan).
Personal Property	Property such as an appliance, a piece of furniture, a radio etc., which under local applicable law is not a fixture.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.
Property Seller	The seller of the property under contract for sale to the borrower who is using Minnesota Housing financing.
Qualified Homebuyer Training	Qualified Homebuyer Training is homebuyer training completed in a <b>classroom</b> setting by organizations that have had staff trained under HomeStretch or NeighborWorks America.
Seller	A lender under contract to participate in Minnesota Housing programs.
Single Head of Household	A family with one adult householder, no spouse/partner in the household, and one or more dependents in the household.

## Forms List

Acquisition Cost Worksheet  
Borrower Affidavit  
Borrower Affidavit – Veteran’s Exemption Amendment  
HAF Mortgage  
HAF Note  
Income Eligibility Calculation Worksheet  
Loan Transmittal 1st Mortgage  
Modification Agreement  
Mortgage Deed Amendment – Conventional/RD  
Mortgage Deed Amendment – FHA  
Mortgage Deed Amendment – VA  
Notice to Buyers FHA  
Notice to Veteran and Consent  
Property Seller Affidavit  
Subsidy Recapture Disclosure Statement

## Process Guide

This guide is a supplement to the Minnesota Housing Mortgage Program Procedural Manual. All policies and processes contained in the Minnesota Housing Mortgage Program Procedural Manual must be followed.

The contents of this guide cover a number of Minnesota Housing eligibility guidelines, but do not contain all the information necessary to originate a loan for sale to Minnesota Housing.

All loans must be processed following industry standard practices and must meet the underwriting guidelines of the insurer/guarantor for the product under which the Seller originates the loan.

### Origination

- Confirm preliminary eligibility for Minnesota Housing loan programs
  - First time homebuyer status (2.05)
  - Principal residence requirement (2.06)
  - Income limits (2.07)
  - Acquisition cost limits (3.05)
  - Personal property (3.07)
    - Personal property cannot be included on the purchase agreement, any attachment to the purchase agreement, or the appraisal report.
    - Remove any personal property using an addendum to the purchase agreement.
- Homeownership Assistance Fund (HAF), if applicable (5.02, 5.03, and 5.04)

#### System:

- Pre-Qualifying Assessment – Enter basic information and see programs borrower may qualify for with Minnesota Housing.
  - Select program, enter appropriate information, making adjustments as needed (from error messages), and submit to gain commitment.
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- Discuss/explain applicable Minnesota Housing-specific forms and guidelines
    - Borrower Affidavit

- Subsidy recapture disclosure statement form
- HAF note and mortgage
- Confirm first time homebuyer status (2.05 and 7.02)
  - Obtain and review:
    - Three years federal income tax returns
      - Review documents for mortgage interest and/or real estate deductions
    - Credit report, if tax returns are not sufficient
    - Rental verifications, if tax returns and/or credit report are not sufficient
    - Notarized affidavit signed by borrower if not legally required to file federal income taxes
  - Previous ownership within three years
    - Obtain documentation that the Borrower has not owned a principal residence during the past 3 years.
    - Mobile/manufactured homes
      - Eligible as first-time homebuyer
        - Located in a mobile home park and lot rented
        - Owns lot and taxed as personal property
      - Not eligible as first time homebuyer
        - Owns lot and taxed as real estate
- Confirm property requirements
  - Outbuildings
    - Acceptable if the value of the outbuildings is minimal and there will be no business income derived from the buildings
  - Condominium and Planned Unit Development (3.03)
    - Obtain condominium or planned unit development approval documentation:
      - FHA - conditional commitment form
      - VA - CRV (Certificate of Reasonable Value) or appraisal and LNV (Lender's Notice of Value)
      - Conventional - Signed letter from the Seller's underwriter indicating "spot" approval of basic compliance under Fannie Mae or Freddie Mac or PMI guidelines
      - RD - Evidence of formal project approval from FHA, VA, Fannie Mae or Freddie Mac
  - Existing home – what to include
    - Purchase price
    - Borrower-paid required repairs or rehab
    - Special assessments paid or assumed by the Borrower

- New construction – include:
  - Land purchase price or value
    - Total costs of constructing a residence
    - Materials used with sweat equity
  - Do not include sweat equity in Minnesota Housing Acquisition Cost
- Confirm appraisal requirements (3.06)
  - Property may not appraise for more than 125% of the applicable acquisition cost limit
  - Confirm the appraisal report indicates whether the subject property is located within a “Special Flood Hazard Area” (Flood Zone A) as identified by FEMA, through the National Flood Insurance Program.
    - Obtain a flood certification, if the appraisal form does not include flood zone information
- Confirm private septic system requirements (3.10)
  - Note: Minnesota Housing requirements as specified in Section 3.10 are more stringent than Rural Development’s requirements.
- Confirm government-owned REO eligibility
  - Properties being sold by a government agency (HUD, VA, or RD) and financed with a government insured loan do not necessarily require an appraisal. However, if the property is to be financed with a privately insured mortgage, the Seller must obtain a standard conventional appraisal report. Any work orders that are made a condition of such an appraisal report must be addressed, generally by the Borrower providing an escrow of funds to correct those work orders after closing.
- Confirm Rural Development 502 Leveraged Loan eligibility
  - Dollar value of rehab work may not exceed the RD loan amount
  - Minnesota Housing requirements for Seller establishment of a repair escrow, as noted in Section 3.09 are waived
- Confirm Homeownership Assistance Fund (HAF) eligibility (5.02 – 5.03)
  - Calculate the HAF amount
  - Monthly payment assistance
    - Examine the long term affordability

- Borrowers receiving their primary or sole source of income from fixed income sources (e.g., public assistance, pensions) should be approved only if the Seller can identify appropriate compensating factors (such as limited debt obligations or a prompt history of rental payments at a level substantially above the proposed PITI).

## **Closing**

- Determine first payment date
  - Interest credit closings must occur within the first 7 days of the month
- Confirm new construction requirements
  - Construction must be complete
  - Funds must be fully disbursed
    - Exception – completion/repair escrows (3.09)
- Execute Minnesota Housing-specific forms no later than the closing date:
  - Borrower Affidavit
    - Signed by all borrowers
    - No party other than a borrower may sign, even if they have power of attorney
  - Subsidy recapture disclosure statement
  - Property seller affidavit
  - Mortgage amendment
- If applicable:
  - HAF note and mortgage
  - Special notice, FHA and VA loans

### **System:**

- Retrieve Commitment and enter required information, making adjustments as needed (from error messages).
- All information except the closing date can be entered and qualified prior to “Purchase Approval” by the HDS SF Web Application.

## **Post Closing/Shipping**

- Endorse mortgage note as follows:



- The reverse side of the note must bear the following endorsement signed by the Seller: "Pay to the Order of the Minnesota Housing Finance Agency, Without Recourse."

**System:**

- After loan is closed, retrieve Commitment and enter loan closing date, submit to gain "Purchase Approval" on the loan.
- The Purchase view will show payment details and funds will be received in two business days!

**Delivery**

- Deliver to Minnesota Housing (use Loan Transmittal 1<sup>st</sup> Mortgage form)
- Deliver to Servicer (use Loan Transmittal 1<sup>st</sup> Mortgage form)

**System:**

- Track submission deadlines for final documents.
- Retrieve the loan record and note deadlines and required corrections.